



# Occidental Petroleum Corporation (OXY)

Updated March 1<sup>st</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$44	<b>5 Year CAGR Estimate:</b>	-3.2%	<b>Market Cap:</b>	\$42.8 B
<b>Fair Value Price:</b>	\$34	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	3/9/2022
<b>% Fair Value:</b>	129%	<b>5 Year Valuation Multiple Estimate:</b>	-5.0%	<b>Dividend Payment Date:</b>	4/15/2022
<b>Dividend Yield:</b>	1.2%	<b>5 Year Price Target</b>	\$34	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	1200%

## Overview & Current Events

Occidental Petroleum is an international oil and gas exploration and production company with operations in the U.S., the Middle East, and Latin America. It has a market capitalization of \$42.8 billion. While the company also has a midstream and a chemical segment, it is much more sensitive to the price of oil than the integrated oil majors. That's why Occidental was more severely affected than its integrated peers by the downturn in the oil market between mid-2014 and 2016. Due to that downturn, the company reported negligible earnings in 2015 and posted a loss in 2016.

On August 8<sup>th</sup>, 2019, Occidental acquired Anadarko. Occidental pursued this acquisition thanks to the promising asset base of Anadarko in the Permian, which has enhanced the already strong presence of Occidental in the area, and the \$3.5 billion annual synergies it expects to achieve. However, this is a huge acquisition, as the \$38 billion value of the deal is nearly equal to the current market cap of Occidental. Occidental secured \$10 billion in funding from Berkshire Hathaway (BRK.A) in exchange for preferred shares, which receive an 8% annual dividend.

In late February, Occidental reported (2/24/22) financial results for the fourth quarter of fiscal 2021. The average realized prices of oil and gas grew 10% and 7%, respectively, over the prior quarter while the chemical segment posted record earnings thanks to wide margins amid strong pent-up demand. As a result, Occidental grew its adjusted earnings-per-share 70%, from \$0.87 to \$1.48. Due to its high debt load, Occidental is one of the greatest beneficiaries in its sector from the 7-year high prices of oil and natural gas. It reduced its net debt by \$6.7 billion in 2021, to \$47.6 billion. In addition, it recently announced that it will retire at least another \$2.5 billion of debt in 2022. The stock rallied 13% on the news, as it relieved the concerns of the market over its debt load.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$7.09	\$6.96	\$4.83	\$0.12	-\$1.01	\$0.89	\$5.01	\$1.45	-\$3.91	\$2.55	<b>\$4.30</b>	<b>\$2.40</b>
<b>DPS</b>	\$2.07	\$2.45	\$2.80	\$2.94	\$3.01	\$3.05	\$3.10	\$3.14	\$0.82	\$0.04	<b>\$0.52</b>	<b>\$0.76</b>
<b>Shares<sup>1</sup></b>	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5	918.7	972.7	<b>990.0</b>	<b>1050.0</b>

The pandemic has begun to subside and the energy market is recovering strongly. As a result, Occidental has decent growth prospects ahead. It doubled its output in the Permian in 2017-2019 and expects to double it again over the next five years if the energy market returns to normalcy, from 300,000 to 600,000 barrels per day. However, we note the high debt load of the company and its resultant sensitivity to prices. As long the oil price remains high, Occidental will keep thriving. Nevertheless, we expect the oil price to deflate in the upcoming years and thus we expect the earnings-per-share of Occidental to revert towards its mid-cycle level (9-year average) of \$2.40.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	12.4	12.8	19.5	---	---	---	15.0	36.0	---	10.8	<b>18.3</b>	<b>14.2</b>
<b>Avg. Yld.</b>	3.0%	2.2%	3.0%	4.0%	4.2%	4.7%	4.1%	6.0%	4.3%	0.1%	<b>1.2%</b>	<b>2.2%</b>

<sup>1</sup> In millions

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Occidental is currently trading at 18.3 times its mid-cycle earnings-per-share of \$2.40. This earnings multiple is higher than the 10-year average price-to-earnings ratio of 14.2 of the stock. If the stock reverts to its average valuation level over the next five years, it will incur a -5.0% annualized drag due to the contraction of its valuation level.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37.0%	27.6%	58.0%	---	---	343%	61.9%	217%	---	1.6%	21.7%	31.8%

Before the pandemic, Occidental had raised its dividend for 17 consecutive years at an 11% average annual rate.

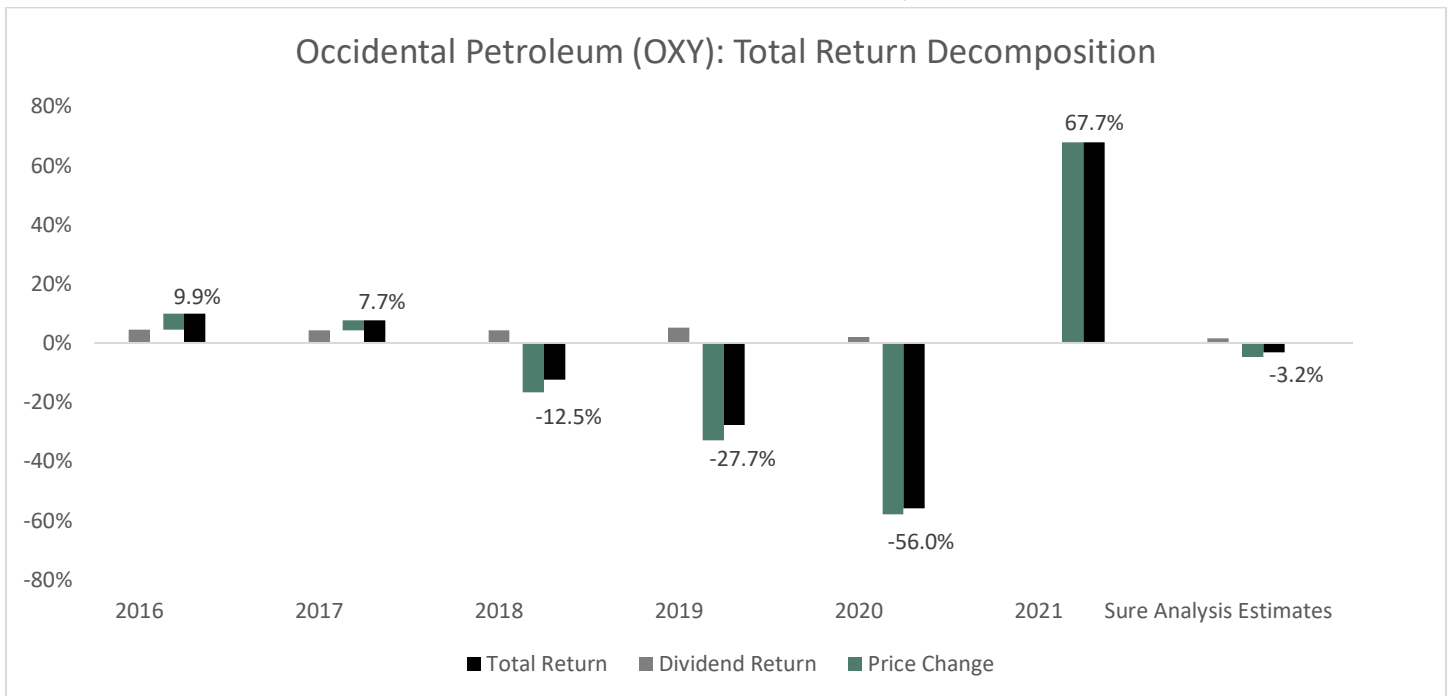
However, the coronavirus crisis caught the company off-guard, with an excessive debt pile. As a result, Occidental cut its dividend by -99% in 2020.

Moreover, Occidental is very sensitive to the gyrations of oil prices. The company's reliance on oil prices was displayed in the Great Recession, when its earnings-per-share fell -58%, from \$8.98 in 2008 to \$3.79 in 2009. We reiterate that the company is much more sensitive to oil prices than its "supermajor" peers like Exxon Mobil (XOM), partly due to its high debt load. Due to its leveraged balance sheet, Occidental has essentially become a leveraged bet for high oil prices in the future. Therefore, only the investors who have strong confidence in a sustained rebound of the oil price should consider this stock.

## Final Thoughts & Recommendation

Due to its upstream nature and its takeover of Anadarko, which quadrupled interest expense, Occidental is extremely sensitive to the price of oil. Thanks to the rally of oil and gas prices to 7-year highs, Occidental has become highly profitable and is trying to reduce its debt load at a fast pace. However, we expect poor returns over the next five years. If commodity prices remain high, the stock could maintain its positive short-term momentum, but it could also offer poor long-term returns. The 5-year return of the stock (-33% vs. +85% of the S&P 500) is indicative of the risk of the stock. We rate shares as a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	20,100	20,170	19,312	12,480	10,090	12,508	17,824	20,911	17,809	25,956
<b>Gross Profit</b>	9,985	9,470	8,248	2,132	633	3,087	7,431	7,019	2,844	7,850
<b>Gross Margin</b>	49.7%	47.0%	42.7%	17.1%	6.3%	24.7%	41.7%	33.6%	16.0%	30.2%
<b>SG&amp;A Exp.</b>	1,366	1,544	1,503	1,270	1,330	546	585	893	864	863
<b>Operating Profit</b>	7,909	7,222	6,045	483	(1,036)	1,095	5,117	2,983	(1,258)	4,665
<b>Op. Margin</b>	39.3%	35.8%	31.3%	3.9%	-10.3%	8.8%	28.7%	14.3%	-7.1%	18.0%
<b>Net Profit</b>	4,598	5,903	616	(7,829)	(574)	1,311	4,131	(667)	-14,831	2,322
<b>Net Margin</b>	22.9%	29.3%	3.2%	-62.7%	-5.7%	10.5%	23.2%	-3.2%	-83.3%	8.9%
<b>Free Cash Flow</b>	3,438	5,570	2,680	(2,513)	553	1,262	2,694	759	901	7,661
<b>Income Tax</b>	2,659	3,214	1,685	(1,330)	(662)	17	1,477	861	(2,172)	915

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	64,210	69,443	56,259	43,409	43,109	42,026	43,854	107,190	80,064	75,036
<b>Cash &amp; Equivalents</b>	1,592	3,393	3,789	3,201	2,233	1,672	3,033	3,032	2,008	2,764
<b>Acc. Receivable</b>	4,916	5,674	4,206	2,970	3,989	4,145	4,893	4,233	2,115	4,208
<b>Inventories</b>	1,344	1,200	1,052	986	866	1,246	1,260	1,581	1,898	1,846
<b>Total Liabilities</b>	24,162	26,071	21,300	19,059	21,612	21,454	22,524	72,958	61,491	54,709
<b>Accounts Payable</b>	4,708	5,520	5,229	3,069	3,926	4,408	4,885	4,910	2,987	3,899
<b>Long-Term Debt</b>	7,623	6,939	6,838	8,305	9,819	9,828	10,317	38,588	36,185	29,028
<b>Total Equity</b>	40,016	43,126	34,959	24,350	21,497	20,572	21,330	24,470	8,811	10,565
<b>D/E Ratio</b>	0.19	0.16	0.20	0.34	0.46	0.48	0.48	1.13	1.95	1.43

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	7.4%	8.8%	1.0%	-15.7%	-1.3%	3.1%	9.6%	-0.9%	-15.8%	3.0%
<b>Return on Equity</b>	11.8%	14.2%	1.6%	-26.4%	-2.5%	6.2%	19.7%	-2.9%	-89.1%	24.0%
<b>ROIC</b>	10.1%	12.0%	1.3%	-21.0%	-1.8%	4.2%	13.3%	-1.3%	-23.3%	4.5%
<b>Shares Out.</b>	805.5	796.0	770.6	763.7	764.2	766.4	755.4	809.5	918.7	972.7
<b>Revenue/Share</b>	24.81	25.07	24.72	16.30	13.21	16.33	23.35	25.83	19.39	27.07
<b>FCF/Share</b>	4.24	6.92	3.43	(3.28)	0.72	1.65	3.53	0.94	0.98	7.99

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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